



Boston Gas Company
One Beacon Street
Boston, MA 02108

Attn: Mr. William R. Luthern
Vice President

October 23, 1997

D.T.E. 05-68
Attachment AG-1-2 (a)
Respondent: Arangio
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**Enron Capital & Trade
Resources Corp.**
P. O. Box 1188
Houston, TX 77251-1188

PROPRIETARY
MATERIAL
PROTECTED FROM
PUBLIC DISCLOSURE

TRANSACTION AGREEMENT

This Transaction Agreement shall form and effectuate the current proposal between Boston Gas Company ("Customer") and Enron Capital & Trade Resources Corp. ("Company") regarding the firm purchase and sale of Gas under the following terms and conditions. Customer to purchase and receive (Buyer) and Company to sell and deliver (Seller). Transaction number 1.

DAILY CONTRACT QUANTITY (DCQ):

35,000 MMBtu/day; (Firm)

DELIVERY POINT(S):

Boston Gas City Gate and/or Mendon, MA (as delivered off Tennessee Gas Pipeline Company); provided any interruption of deliveries at the Mendon delivery point shall be received and purchased at the Boston Gas City Gate delivery point.

CONTRACT PRICE (per MMBtu):

1) The TETCO M-3 Index (defined below) plus the Boston Differential (defined below), where:

"TETCO M-3 Index" means the price for natural gas for the applicable delivery Month in U.S. dollars per MMBtu published in the first issue in that Month by Inside FERC Gas Market Report in the table entitled "Market Center Spot Gas Prices" in the row "Texas Eastern Transmission Corp. Zone M-3" in the column "Index".

"Boston Differential" means the price differential for the applicable delivery Month in U.S. dollars per MMBtu obtained by subtracting (ii) from (i) where: (i) is the price agreed to by Company and Customer for each applicable delivery Month for delivery of 35,000 MMBtu's per Day of physical Gas delivered to the Boston Gas City Gate and (ii) is the TETCO M-3 Index for that delivery Month. If, for any reason whatsoever, the Parties cannot agree on the Boston Differential for any delivery Month, the Boston Differential for such delivery Month shall be deemed to be equal the indicative Boston Gas City Gate Index (defined below) for that delivery Month minus the TETCO M-3 Index for that delivery Month. Company will endeavor to submit Company's proposal as to such Boston Differential at least 3 days prior to each delivery Month.

2) Additionally, Customer agrees to pay Company a Monthly reservation fee for the first fifty-six (56) months of the term of delivery under this Transaction Agreement. Such monthly transaction fee shall be equal to the product of \$0.045 per MMBtu times 35,000 MMBtu times the number of days in the Month.

PERIOD OF DELIVERY:

Commencing on January 1, 1998 and continuing thereafter through March 31, 2007. Notwithstanding the foregoing, this Transaction Agreement shall automatically terminate as of January 1, 1998 if ECTRC fails to obtain signed purchase and sale transactions with Alberta producers (including all amendments thereto and, with all such amendments, in form and substance acceptable to ECTRC) for the delivery of the DCQ plus applicable fuel gas for the term of this Transaction, and such Alberta producer transactions (including all amendments thereto) are in full force and effect.

SPOT PRICE LOCATION:

Texas Eastern - Zone M3

OTHER:

1) Option - Commencing November 1, 1999, Customer has the sole right with ninety (90) days prior written notice to reduce the DCQ in increments of not less than 15,000 MMBtu/Day for the remaining term of this Transaction Agreement. Additionally, if Customer's purchases under its long term gas purchase arrangements with Imperial Oil Limited for gas originating from the Sable Offshore Energy Project do not commence by November 1, 2000 and if Company agrees to redetermine the Contract Price hereunder, then the Contract Price hereunder shall be redetermined to a Contract Price that is mutually agreeable to the Parties.

2) Repurchase Option - Company has the right to repurchase quantities at the Boston Gas City Gate delivery point with the consent of Boston Gas; provided, however, that such consent will not be unreasonably withheld and that such quantities are otherwise not encumbered by Customer's currently effective capacity assignment procedures, a copy of such capacity assignment procedures to be provided by Customer to Company prior to commencement of deliveries under this Transaction Agreement. These quantities must be designated at the first of the month, and cannot be diverted from the Boston Gas City Gate delivery point. Company shall purchase such quantities at a \$0.005 per MMBtu premium to the calculated monthly price.

3) Future Boston Gas City Gate Index - If, at any time during the Period of Delivery, there is an established liquid market for natural gas delivered to, and purchased at the Boston Gas City Gate at a price index which the Parties have agreed in writing is acceptable to each of the Parties, respectively in their sole discretion (the "Approved Boston Gas City Gate Index"), the Parties agree that, commencing the first delivery Month after the Month in which the Parties have agreed in writing to the Approved Boston Gas City Gate Index and for the remainder of the Period of Delivery, the TETCO + Boston Differential Component of the Contract Price (defined below) shall be replaced for all purposes under this Confirmation Letter, including for the determination of the Contract Price over the remainder of the Period of Delivery, by the Approved Boston Gas City Gate Index. For certainty, the Parties acknowledge and agree that, as of the date hereof and unless and until accepted by the Parties as the Approved Boston Gas City Gate Index as provided above, the Indicative Boston Gas City Gate Index (defined below) is not acceptable to the Parties as the Approved Boston Gas City Gate Index.

As used above:

"TETCO + Boston Differential Component of the Contract Price" means the portion of the Contract Price determined by the sum of: (i) the TETCO M-3 Index; plus (ii) the Boston Differential; and

"Indicative Boston Gas City Gate Index" means the price for natural gas for each applicable delivery Month in U.S. dollars per MMBtu published in the first issue in that Month by Natural Gas Week in the table entitled "City Gate Prices" in the row "Boston, Mass" in the column "Bid Week" for the applicable delivery Month.

4) True-Up Mechanism - Within Sixty Days of each Anniversary Date (defined below), Seller shall send Buyer a written statement showing: (i) the monthly average of the TETCO + Boston Differential Component of the Contract Price for the delivery Months to which the TETCO + Boston Differential Component of the Contract Price is applicable (the "Yearly Average Differential Component of the Contract Price"); and (ii) the monthly average of the Indicative Boston Gas City Gate Index over each of those same delivery Months (the "Yearly Average Indicative Boston Gas City Gate Index").

If the Yearly Average Differential Component of the Contract Price is: (i) less than 96% of the Yearly Average Indicative Boston Gas City Gate Index; or (ii) greater than 104% of the Yearly Average Indicative Boston Gas City Gate Index, the amount paid or payable by Buyer for the total volume of Gas purchased and sold over each of those same delivery Months shall be adjusted by an amount (the amount of such adjustment being the "Adjustment Amount"), payable as of the next Payment Date, obtained by multiplying: (A) the absolute value of the difference between the Yearly Average Differential Component of the Contract Price and the Adjusted Yearly Average Indicative Boston Gas City Gate Index (defined below); by (B) the total volume of Gas purchased and sold over each of those same delivery Months. In the case of an adjustment for (i) above, the Adjustment Amount shall be payable by Customer to Company. In the case of an adjustment for (ii) above, the Adjustment Amount shall be payable by Company to Customer.

As used above:

"Adjusted Yearly Average Indicative Boston Gas City Gate Index" means: (i) if the Yearly Average Differential Component of the Contract Price is less than 96% of the Yearly Average Indicative Boston Gas City Gate Index, 96% of the Yearly Average Indicative Boston Gas City Gate Index; or (ii) if the Yearly Average Differential Component of the Contract Price is more than 104% of the Yearly Average Indicative Boston Gas City Gate Index, 104% of the Yearly Average Indicative Boston Gas City Gate Index; and

"Anniversary Date" means, with respect to each Contract Year, November 1, 1998; November 1, 1999; November 1, 2000; November 1, 2001; November 1, 2002; November 1, 2003; November 1, 2004; November 1, 2005; November 1, 2006; and April 1, 2007.

5) Regulatory Approval - Buyer agrees to use all reasonable efforts to obtain any approvals, consents or authorizations ("Regulatory Approval") that may be required from the Massachusetts Department of Public Utilities ("MDPU" herein) to allow Buyer to enter into this Transaction with Seller, and Buyer has advised Seller that Buyer intends to make a regulatory filing with the MDPU to obtain such Regulatory Approval. Buyer agrees that if the MDPU does not issue an order allowing Buyer's purchase of gas under the terms and conditions of this Transaction ("Regulatory Approval") at any time prior to January 1, 1998, then this Transaction Agreement shall automatically terminate.

6) Force Majeure - Notwithstanding anything to the contrary contained in the ENFOLIO Master Firm Purchase/Sale Agreement, any curtailments or interruptions of firm delivery service occurring at any point upstream of the Boston Gas City Gate delivery point up to and including any NOVA Inventory Transfer delivery point on NOVA Gas Transmission Ltd.'s gas transmission system at Alberta, Canada shall be deemed to be an event of Force Majeure under this Transaction.

7) Boston Canadian Transportation Requirements, Boston U.S. Transportation Requirements and Export/Import Requirements - Seller and ECTRC, on behalf of Seller, shall use all reasonable efforts to obtain all approvals and assignments (including, without limitation, any approvals, consents or authorizations required from any applicable regulatory authorities to any such assignments), with terms and in a form acceptable to Seller and ECTRC, for

firm transportation agreements necessary to transport the DCQ plus applicable fuel gas for the period of delivery from (a) the NOVA Inventory Transfer delivery point on NOVA Gas Transmission Ltd.'s gas transmission system at Alberta, Canada to the interconnection of TransCanada Pipelines Limited ("TCPL") and Iroquois Gas Transmission System, L.P. ("IGT") at Iroquois, Ontario and Waddington, New York (the "Boston Canadian Transportation Requirements") and (b) the interconnection of TCPL and IGT at Iroquois, Ontario and Waddington, New York to the Boston Gas City Gate delivery point (the "Boston U.S. Transportation Requirements"). Additionally, Seller and ECTRC shall use all reasonable efforts to obtain all regulatory approvals, with terms and in a form acceptable to Seller and ECTRC, necessary for the DCQ plus applicable fuel gas to be removed from Alberta, exported from Canada and imported into the United States (collectively the "Export/Import Requirements"). Buyer shall cooperate with Seller and ECTRC in obtaining the Boston Canadian Transportation Requirements, the Boston U.S. Transportation Requirements and the Export/Import Requirements. If the Boston Canadian Transportation Requirements have not been obtained by January 1, 1998, then Seller, in its sole discretion, may terminate this Transaction at any time after January 1, 1998 but prior to the date the Boston Canadian Transportation Requirements have been obtained by giving written notice thereof to Buyer. If the Boston U.S. Transportation Requirements and the Export/Import Requirements have not been obtained by January 1, 1998, then Seller, in its sole discretion, may terminate this Transaction at any time after January 1, 1998 but prior to the date the Boston U.S. Transportation Requirements and the Export/Import Requirements have been obtained by giving written notice thereof to Buyer.

This Transaction Agreement is being provided pursuant to and in accordance with the ENFOLIO Master Firm Purchase/Sale Agreement in effect between Customer and Company and constitutes part of and is subject to all of the terms and provisions of such Agreement. Please execute this Transaction Agreement and return an executed copy to Company. Your execution should reflect the appropriate party in your organization who has the authority to cause Customer to enter into this Transaction. In the event Customer alters the terms of this Transaction Agreement in any manner there will be no Transaction pursuant to this Transaction Agreement.

BOSTON GAS COMPANY

By: 

Name: WILLIAM R. LITHER

Title: VICE PRESIDENT

ENRON CAPITAL & TRADE RESOURCES CORP.

By: 

Name: Julie Gomez

Title: Vice President